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TAGS: ECON ETRD EAGR EFIN PREL EC
SUBJECT: AMBASSADOR'S MEETING WITH MAURICIO DAVALOS,
MINISTER FOR PRODUCTION AND ECONOMIC POLICY

Classified By: Ambassador Linda Jewell. Reason: 1.4 B and D

¶1. (C) Summary. In a March 13 meeting with the Ambassador, Mauricio Dávalos, President Correa's minister-level coordinator for production and economic policy, focused much of his discussion on the need to support income-generating agricultural projects. He also said that the GOE's vision is different than that of Chavez, and Ecuador wants good relations with the United States. He said the GOE would combat corruption, starting with three notorious Guayaquil-based institutions. He stressed the importance of ATPA extension and will participate in a GOE delegation that will travel to the U.S. March 21 to lobby for an extension. End summary.

¶2. (U) Ambassador met on March 13 with Mauricio Dávalos, who was appointed to the newly created position of Minister for Coordination of Production and Economic Policy, which is formally part of the President's Office. The meeting took place in Dávalos' new office, which is located in a government development bank. The large office had furniture and a TV, but little else, and Dávalos lamented that he did not yet even have a secretary.

¶3. (U) Dávalos said that his responsibilities include oversight and coordination of all ministries that deal with economic issues and the government development banks, and serving as president of the foreign trade committee.

Employment/Production

¶4. (SBU) Dávalos said that generating employment is the key economic challenge facing Ecuador, which is why the government has focused on restoring production. He said other governments had forgotten about employment and production and instead had focused on the fiscal situation and external indicators. He also said that for ideological reasons previous governments stopped investing in key sectors such as electricity and irrigation, and as a result those sectors had been neglected.

¶5. (SBU) In the course of the conversation, Dávalos mentioned a range of agricultural products that had been or could be successful income-generating crops. Dávalos said that the government intends to promote these types of incoming-generating projects through financial support. The Ambassador asked whether the financing would be to large or small businesses, and Dávalos replied "both." (Note: We had heard that the Ministry of Economy wants to limit government-backed loans to \$5,000, while Dávalos is pushing for a \$500,000 ceiling, which would benefit larger

agricultural producers.)

Corruption

¶6. (C) When the Ambassador noted that corruption had also held back economic progress, Davalos agreed and said that the government would focus on the three Guayaquil-based institutions known for corruption: customs, the electricity company (CATEG) and the telephone company (Pacifictel). When the Ambassador mentioned Petroecuador as another institution that warrants attention, Davalos concurred but did not further elaborate.

Different Vision than Chavez

¶7. (C) Davalos said that the Government of Ecuador has a different vision than does Chavez, noting in particular that Ecuador wants good relations with the United States.

Bilateral Trade

¶8. (SBU) Davalos said that extension of the Andean Trade Preferences Act (ATPA) is very important for Ecuador. He noted the efforts Ecuador had made to combat narcotics trafficking and how the employment created by trade had reduced the temptation to traffic in narcotics. The Ambassador mentioned that most members of Congress view ATPA as more of a trade issue than a counter narcotics matter, and Davalos replied that it is important to keep fresh the initial idea behind ATPA. He said that the GOE will send several delegations to Washington to lobby for ATPA extension, and he would participate in that effort. (Note: Post subsequently learned that he will travel to Washington

on March 21, and Foreign Minister Espinosa will join him a day later.)

¶9. (SBU) Davalos said that the Correa administration is against a free trade agreement (FTA) with the United States, but "not for trivial reasons." He illustrated with two examples of how he believes FTAs would affect Ecuador's agricultural sector. One, he lamented that the FTAs with each country are separate agreements, with no allowance for how one FTA could affect a third party. As a result, he said, when Colombia's FTA with the U.S. enters into force, U.S. bean exports will displace Ecuadorian exports, and Colombia is Ecuador's principal market for beans. Two, he said that Ecuadorian potato production is more expensive than in the U.S. and would not be able to make the improvements necessary to compete under a U.S.-Ecuador FTA.

Bio notes

¶10. (U) Davalos is one of a relatively few government ministers who has extensive government experience. He previously served as Minister of Energy (1979), General Manager of the Central Bank (1980), head of the National Development Bank, Minister of Agriculture (2000) and Ecuador's governor to the IMF. He has a bachelor's in economics from Northwestern, a master's in economics from Vanderbilt, where he also completed his coursework for a PhD. In the private sector, he has worked extensively in the agricultural and floriculture sectors.

Comment

¶11. (C) Although he is relatively new in his position, observers assume that Davalos will be an important player on economic issues, given his access to the President, his oversight over a range of economic issues, and his extensive government experience. We left that meeting believing that he indeed is someone who will be influential on economic issues in the Correa administration. That said, in the

meeting with the Ambassador, Davalos focused primarily on small agricultural issues rather than broad issues, which emerged only late in the conversation. It's clear that much work remains to be done within the Correa administration to develop a cohesive and coordinated economic agenda.

JEWELL